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MARKETS

Telegram Messaging App Scraps Plans for Public Coin Offering

Telegram plans to put the money it raised into a new digital payment platform, Telegram Open Network, meant for a wide audience



Pavel Durov, Telegram's chief executive and co-founder, has raised \$1.7 billion in private coin offerings and is no longer planning a public sale of tokens. PHOTO: MANUEL BLONDEAU/AOP.PRESS/CORBIS/GETTY IMAGES

By Paul Vigna

May 2, 2018 1:25 p.m. ET

The popular messaging app Telegram has brought in so much money from a small group of private investors that it is calling off a planned sale of cryptocurrency to the wider investing public, according to a person familiar with the matter.

Telegram Group Inc. has pulled in \$1.7 billion by selling newly created cryptocurrency to fewer than 200 private investors.

The startup, founded by two Russian brothers, has created a groundswell of enthusiasm in the private markets for its next project, which it describes as a digital payments and technology platform that will appeal to a wider audience than established virtual currencies like bitcoin.

Telegram says it is using the money it has raised for the project, called Telegram Open Network, to build out its technology and further redevelop and maintain its main messenger service, which has about 200 million users globally.

The network, which will be built using “blockchain” ledger technology, “can become a Visa/Mastercard alternative for a new decentralized economy,” the company noted in a 23-page description of its plans.

The fundraising effort, which took place from January to March, has made Telegram one of the largest initial coin offerings, a fast-growing area that has drawn both intense investor interest and regulatory concern. It also highlights the growing preference among upstarts in technology and elsewhere to raise money in private, less-regulated markets.

Telegram hasn’t commented publicly on its offering and declined multiple requests for comment.

Started by brothers Pavel Durov and Nikolai Durov, Telegram offers users an encrypted platform that is free from government surveillance. It has attracted praise from privacy advocates but concern from critics, who say it is the preferred communications platform for terrorists, militants and criminals.

Last year, the company outlined plans to build an online-services platform based on blockchain. It is also launching a new cryptocurrency, called a gram, that would operate on the platform. Cryptocurrencies are essentially digital money in which the supply and demand are influenced by technology and algorithms rather than by governments or other central authorities.

Telegram has argued that established virtual currencies such as bitcoin and ether haven’t reached the mass market due to a variety of structural flaws. With its large user base, Telegram claims it will be able to connect its technology to a broader market.

A two-page document circulated late last year and reviewed by The Wall Street Journal showed Telegram expected to raise about \$1.2 billion, split evenly between a private and a public round of fundraising. The document indicated in several places that a public sale would take place in March 2018.

Instead, Telegram reported in a February Securities and Exchange Commission filing that it raised \$850 million from 81 investors in a private deal. In March, the company said it raised another \$850 million from 94 investors in a second private deal. The offerings were open only to accredited investors, which meant participants needed to exceed income requirements or have net worth of at least \$1 million.

Telegram’s latest filing, on March 29, suggested fundraising could be ongoing, but the person briefed on the matter said Telegram is no longer considering a public deal open to retail investors.



The Telegram encrypted messaging app, as seen on a smartphone in May 2017 PHOTO: CARL COURT/GETTY IMAGES

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ram felt it had raised enough money to avoid a public deal. One person familiar with the company said another reason is that the regulatory environment has changed since the company first started planning the offering.

A deal open to any investors, rather than just wealthier, accredited ones, could open up the company's executives to more scrutiny, a timely concern given the Securities and Exchange Commission's recent focus on ICOs. Telegram is represented by the law firm Skadden, Arps, Slate, Meagher & Flom, which couldn't be reached for comment.

Pavel Durov, 33 years old, is the face of Telegram. Well-known in his native Russia, he created VKontakte, a Facebook-like social-media website known as VK, which today is the 17th-most-trafficked website in the world, according to Amazon's Alexa web rankings.

In 2013, he sold VK and used the proceeds to start Telegram. The firm's encrypted text-messaging service is popular with users, although it remains controversial with some governments.

Telegram's website describes how the firm's executives fled Russia "due to local IT regulations" and then moved to Berlin, Singapore and London before settling in Dubai.

Last month, Russia, where some 7% of Telegram users live, blocked access to 18 million IP addresses in an attempt to block Telegram in the country, after Mr. Durov refused to provide the government with a way around the site's encryption.

That, in a way, only bolstered the site's popularity and Mr. Durov's renown. In a post on his own Telegram channel, Mr. Durov said most Russians are getting around the ban by turning to virtual private networks and other proxies. On April 22, he boasted that the ban hadn't worked and encouraged his followers to show support by throwing paper airplanes—the company's logo—out of their windows.

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